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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**2 COMMISSIONERS

2006 MAR -7 P 2:15

3 JEFF HATCH-MILLER, Chairman
4 WILLIAM A. MUNDELL
5 MIKE GLEASON
6 MARC SPITZER
7 KRISTIN K. MAYES

AZ CORP COMMISSION
DOCUMENT CONTROL

8 IN THE MATTER OF THE APPLICATION OF
9 ARIZONA PUBLIC SERVICE COMPANY FOR
10 A HEARING TO DETERMINE THE FAIR
11 VALUE OF THE UTILITY PROPERTY OF THE
12 COMPANY FOR RATEMAKING PURPOSES,
13 TO FIX A JUST AND REASONABLE RATE
14 OF RETURN THEREON, TO APPROVE RATE
15 SCHEDULES DESIGNED TO DEVELOP SUCH
16 RETURN, AND TO AMEND DECISION NO.
17 67744


DOCKET NO. E-01345A-05-0816

NOTICE OF ERRATA

18 NOTICE IS HEREBY GIVEN that Arizona Public Service Company ("APS" or
19 "Company") is filing a revised version of the Direct Testimony of Peter M. Ewen filed on
20 January 31, 2006 in the above-referenced docket. This filing includes a correction to the
21 table on pages 5 and 6, which summarizes the sources of cost increases relating to the
22 Company's fuel expenses. The second lined item in that table should read "Natural Gas
23 and Power Prices - \$330 million." The testimony is being provided in both redlined and
final versions.

RESPECTFULLY SUBMITTED this 7th day of March, 2006.

PINNACLE WEST CAPITAL CORP.
Law Department


Thomas L. Mumaw
Karilee S. Ramaley

1 SNELL & WILMER L.L.P.

2
3 Deborah R. Scott

4 Attorneys for Arizona Public Service Company
5

6 ORIGINAL AND 15 COPIES OF THE FOREGOING
7 filed this 3rd day of March, 2006, with:

8 Docket Control
9 Arizona Corporation Commission
10 1200 West Washington
PHOENIX, AZ 85007

11 **And** copies of the foregoing mailed, faxed or
12 transmitted electronically this 3rd day of
March, 2006 to:

13 All Parties of Record
14

15 Birdie Cobb
16 Birdie Cobb
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1 growth that the Company is dealing with, represents the largest
2 component of the requested rate increase, prices for coal resources
3 also are increasing. Coal prices increased 13% between 2003 and
4 the Test Year and are projected to increase an additional 6% in
5 2006. Cumulatively, higher coal prices have raised the Company's
6 base cost of fuel by \$34 million.

- 7 • Hedging: As discussed above, coal prices, natural gas prices and
8 power prices all increased during the Test Year and are continuing
9 to do so in 2006. Natural gas and power prices also continue to be
10 volatile. APS's request would have been significantly higher
11 absent the results of the Company's commodity hedging program.
12 All of the price increases discussed above rolled together would
13 have amounted to an increased fuel expense of approximately
14 \$364 million — \$330 million for gas and power and \$34 million
15 for coal. In addition to mitigating the market volatility for natural
16 gas and purchased power through its hedging program, the
17 Company, was able to reduce fuel expense by more than \$169
18 million. By the end of August 2005, the Company had hedged
19 85% of its 2006 gas and power requirements. The vast majority of
20 these contracts are at prices significantly below recent market
21 prices and, valued at November 30, 2005, will save the Company
22 and its customers almost \$2.50/MMBTU on the effective gas price
23 incurred in 2006.

24 The following table summarizes these results on the Company's fuel expenses:

25 Incremental Sales Growth	\$ 147 million
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26

1	Natural Gas and Power Prices	\$ 330 million
2	Coal Prices	\$ 34 million
3	Hedge Value	\$ (169) million
4	All Other Items	\$ (43) million
5	Total of All Changes	\$ 299 million

6

7 Attachment PME-1 quantifies the impact of these key factors on the Company's

8 fuel cost trends. Attachment PME-2 shows graphically the differential in costs

9 for the Company's various resources and the changes in those costs over time.

10 One can plainly see the impact that a changing fuel mix toward natural gas and

11 wholesale market purchases and rising prices across all fuel resources will have

12 on the Company's costs. Attachment PME-3 provides the values of the key

13 factors that contribute most to those costs. Attachment PME-4 shows the rising

14 price environment that the Company and the country have faced over the last

15 several years with respect to 2006 deliveries of natural gas at Henry Hub.

16 Attachment PME-5 shows a similar trend for 2006 on-peak power prices at Palo

17 Verde.

18

19 In light of the above factors, it is easy to see why the Company has requested an

20 interim increase in the Base Fuel Recovery Amount in Docket No. E-01345A-

21 06-0009 and this change in base fuel rates. I am proposing that the Base Fuel

22 Recovery amount be set at 3.1904 ¢/kWh, which reflects normalized levels of

23 power plant performance, expected 2006 fuel and purchased power prices and

24 corresponding hedging results, and a credit for anticipated off system sales

25 margins and the effects of adding the Sundance units to the APS system. The

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